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THE NATIONAL DEBT OF AUSTRIA-HUNGARY.

BY DR. MORIS DUB.

EACH of the states composing the Austro-Hungarian monarchy has independent national finances. They have neither a debt nor a loan in common. Our account must therefore consider the national debt and the financial position of the two halves of the monarchy separately.

I.—THE AUSTRIAN PROVINCES.

The origin of a large amount of Austria's liabilities may be found in the disastrous wars of the past century. The three great wars with Prussia, particularly the celebrated Seven Years' War, entailed an expenditure of nearly 300 millions of florins. During the long period of peace which followed upon this epoch, a large portion of these foreign loans was paid off out of the savings of the home administration, and the burden of the interest was considerably reduced by means of a successful conversion; the Austrian finances were put in order, and the Budget displayed an important surplus for the first time. The great wars with the French Republic and with Napoleon, however, soon nullified these achievements. The monarchy was again compelled to strain its credit to the utmost: it was found impossible to raise loans in England or Holland, and recourse was had to the expedient of issuing paper money, which soon led to the ruin of the entire national economy.

The science of finance was as yet little understood. It was believed that real capital could be created by issuing and circulating paper money, and that such paper notes in unlimited quantity would possess the purchasing power of the actual coin, which was driven more and more out of the country through the increase of the national liabilities. Austria was fairly overwhelmed with a flood of paper money. The notes of the Vienna City Bank, the so-called "*Bankozettel*," were inordinately multiplied; in the year 1810, immediately after the termination of the dis-

astrous campaign against Napoleon, these notes were in circulation to the enormous amount of 1,000 million florins,* while the population amounted to no more than 26,000,000. This paper money completely lost all value by reason of the quantity issued, which far surpassed the actual requirements: and the notorious Financial Charter of February 20th, 1811, was nothing less than the formal bankruptcy of the state. This charter reduced the actual value and cash currency of the note to one-fifth of its nominal value. The "*Bankozettel*" were entirely withdrawn from circulation and replaced by a new paper money, the "Redemption Bills," in the proportion of five to one, so that the paper currency sank to 211 millions of florins. For existing contracts formerly made, a new scale of conversion was fixed upon the new valuation according to the time when the contract was concluded and the depreciation of money when the contract was entered upon. The financial edict diminished by one-half the interest on the Funded Debt, the nominal value of which at that time amounted to 800 millions of florins, and the coupons of which were paid in the depreciated "*Bankozettel*": the payments were thereupon made in the new "Redemption Bills," which were as yet of full value.

The ensuing and even more costly wars with France caused the hasty and non-consolidated issue of new notes; while, by means of the anticipation of the taxes, another new form of paper money, the "Anticipation Notes," was brought into circulation, so that the flood of paper swelled from 211 to 638 millions of florins from 1811 to 1816. The value of the new paper money sank to two-fifths of the nominal value, and it was consolidated afterwards at this rate. The regulation of the financial system was effected by the foundation of the National Bank of Austria in the year 1816, which still forms the only bank for the issue of notes for both states of the monarchy in common, under the name of the Austro-Hungarian Bank. The National Bank successfully undertook to reduce the paper-money circulation to the normal level. The bank paper issued by the state gradually disappeared entirely from circulation, while the National Bank notes formed the only fiduciary money, and no more state paper money was issued from 1816 till 1866. During the disastrous campaign with Prussia in the year 1866, however.

* According to the nominal value, about £100,000,000.

unredeemable state notes were issued, and thus the already advanced consolidation of the currency was thrown back for thirty years. Only of late years has it been possible to pay off this floating debt entirely, and by the adoption of the gold standard to place Austrian finance upon a basis warranting permanence.

We return to the Consolidated Debt. In the year 1811, Government stockholders received a heavy blow by the reduction of their dividends by one-half. In 1818, a partial compensation was made by the spontaneous act of the Sovereign. A kind of stock had been previously created which formed the standard of Austrian national credit for fifty years—the five per cent. “*Métalliques*.” In 1816, a new loan was raised, by which the holders of the old state bonds, upon the payment of a certain sum, exchanged these for new bonds, the “*Métalliques*,” which were rated at five per cent. in the current coin, but the dividends on which were later on curtailed again in the wars of 1859 and 1866, until they were identified with the present 4.2-per-cents. in 1868. By this means, the nominal capital of the debt was reduced from 608 to 488 millions of florins. The debt, thus reduced, was divided into 488 series, of which each amounted to a million of florins. A drawing of the series five times a year was established; the bonds contained in the series drawn, bearing only half of the original interest in paper, were exchanged into new “*Métalliques*,” at the original percentage. In order to lessen the expense thus incurred by the state, an additional sum of five millions of the old debt was purchased at the Exchange and annihilated. This plan was arranged for 49 years; after that period the entire old debt would have disappeared and been replaced by *Métalliques* at five per cent. to a nominal value of 244 millions of florins. The drawings were duly carried out until the year 1867, so that in 1868 the whole then existing old debt was replaced at the full rate of interest. Such was the plan which, although generously and apparently logically conceived, yet imposed a disproportionately heavy burden upon the State, so that it was only possible to carry it out by the negotiation of new loans. The national debt accordingly increased again slowly, but continuously. In 1831, it had reached the amount of a thousand millions, and it was considerably augmented by the stormy events of 1848 and the succeeding period. In 1852, the national debt had exceeded 1,700 millions of florins.

The Treasury was almost empty. The deficit in the Budget had been a chronic occurrence for nearly a century: the larger portion of the national income was swallowed up by the burden of interest upon the national debt, and loans of the most dangerous form, those of the Bank of Issue, were continually increased by the pressure of circumstances. The largest financial operation undertaken by the state was the national loan of 1854. The loan was to pay interest at five per cent. in silver, and amounted to 500 millions of florins. The issue of the loan was an appeal to national patriotism; more than a million and a half subscribers were promptly enrolled. The large sums received, which burdened the state with an annual charge of more than 30 millions of florins, were devoured by the rapacious maw of the military administration. However, upon the outbreak of the war with Italy, the necessary sums for the mobilization were wanting. The worst and most painful discovery was made at the time of the Peace of Villafranca. It then became manifest that the amount of the national loan consisted of 611 instead of 500 millions of florins, and that secret negotiations of the Minister of Finance were responsible for the excess. In addition to this operation, several other smaller issues of loans had to be carried out. The state had recourse to the ever-ready means of floating debts upon the Bank of Issue. State demesnes were sold at an absurdly low rate, and the state railways were sold to foreign companies at an immense loss. At the close of the war, Austria had a debt of more than 2,000 millions of florins.

The financial breakdown was one of the strongest motives which induced Austria to abandon the old system of Absolutism and clericalism and to become a constitutional state. In the October Patent of 1860, and still more in the February Charter of 1861, the control of the finances and the issue of new loans were mentioned as among the most important prerogatives of the Parliament then summoned for the first time, and the representatives of the people addressed themselves to this difficult task with the greatest devotion, although for a time with but little success. The action of Ignaz von Plener, the first constitutional Austrian Minister of Finance, struck at the root of the evil, and aimed at regulating the relations with the Bank of Issue. This was successfully accomplished in a surprisingly short time, thanks to the energetic co-operation of Herr Lucam, the gifted Secretary

of the Bank at that time; in 1865 the National Bank would have been in a position to undertake cash payments after all the advances made to the Government had been consolidated. The disastrous war with Prussia in 1866 put an end to all these schemes. To meet the expenses of the war the state again issued unredeemable paper money not founded upon a money value.

The new regulation of the relations between Austria and Hungary, as well as the cession of the Italian provinces lost in the war, rendered necessary an entire reorganization of the national debt. Italy assumed a portion of the debt, which was contracted for the newly acquired provinces of Lombardy and Venetia. During the settlement of the dual monarchy, Hungary was not to be prevailed upon to recognize the existing national debt as common to both halves of the monarchy. Austria alone remained responsible for the loans contracted during the period of Absolutism. Hungary merely undertook an annual contribution of 29.18 millions of florins, for the interest of the large debts which had been incurred in the suppression of the Hungarian Rebellion and the agricultural colonization of her land, and in addition an annual share of 1.15 millions of florins for the extinction of the lottery loans.

The reorganization of the national debt thus became an inevitable and pressing task. Austria had recourse to an expedient which undermined her credit for many years:—the reduction of the coupons of the national debt. Soon after the war of 1859 a tax of six per cent. was imposed upon the interest of the national debt, and this was raised to seven per cent. in 1862. Now a maximum income tax of sixteen per cent. was laid upon the stocks, so that the five-per-cent. coupons were paid at the rate of 4.2 per cent. These are the Austrian 4.2-per-cents. At the same time there followed the conversion of all the older debts into the uniform 5 and 4.2 per cents respectively, of which two kinds were created, one payable in paper and one in silver.

The reduction of the coupons was really a compulsory arrangement with the creditors of the state, who, however, have been richly compensated for their loss in interest by the price and intrinsic value of their paper, as the price of the uniform stock, which stood at 57 per cent. at the time of the conversion, has risen above par. The cost of interest upon this new debt stood at 106.3 millions of florins after the reduction of the coupons,

and the saving thus effected amounted to eleven millions of florins.

The following years were devoted to the slow consolidation of the state finances. After the reorganization of the dual monarchy came the period of economical prosperity, four short years, in which companies were floated with mushroom speed and stock-jobbing rioted in the wildest manner. Then followed a resounding crash. The crisis of 1873 seriously damaged the prosperity of the Austrian nation. Through the enormous losses in national property, the reserve funds of the people were severely impaired. The Austrian Government was compelled to proceed to the negotiation of a foreign gold loan at a heavy sacrifice. Austria had the silver currency; but by a law passed in 1867 an Austrian gold coin (the four-florin and eight-florin piece) had been created, equal in value to the ten and twenty franc pieces. Upon this gold coinage was based the new foreign loan, the four per cent. Gold Rente, which was raised in 1875, chiefly in France. By the issues of the following year, this first purely Austrian debt was increased to 272.6 millions of florins. In 1892 and 1895, a further series of this Gold Rente was issued, but this time for an economically useful object—the regulation of values and the redemption of the floating paper debt. In the eighties, Austria contracted internal loans, which were taken up again upon the increase of prosperity after the great crisis. A five per cent. paper stock was created, the proceeds of which were devoted to the construction of railways upon a large scale, but also for less productive objects, such as military expenses, the re-arming of the army and the covering of deficits in the Budget: 238.8 millions of florins of this five per cent. stock were issued. The national debt was also increased by the acquirement of private railways by the state.

The lowering of the rate of interest which took place universally in the early nineties, afforded the opportunity to the Austrian monarchy of considerably reducing the burden of interest. The state had recourse to the conversion of the five per cent. Government Stock, especially the Paper Renten. In 1892, the entire five-per-cents. were converted into a four per cent. stock based upon the new crown currency. The standard rate of interest for the Austrian national debt was henceforth four per cent. The continual reduction of the rate of interest also led to excesses

in after-years. Such an excess was the creation of a 3½ per cent. Rente, which was exceedingly unpopular, possessed no attraction at home, and was placed with much difficulty with foreign, particularly French, capital.

The regulation of the currency and the adoption of the gold standard are of the most beneficial influence upon the Austrian national debt. Austria thus joins the ranks of those states which are economically sound, and upon the completion of the work will stand upon the same level with France and Germany. The state paper, which forms a melancholy souvenir of an inglorious fratricidal war, is extinct; the gold value of the currency, formerly exposed to the most violent fluctuations, is settled and assured by a wise bank policy; while the creditors of the state receive their interest and return of capital no longer in a depreciated coinage, uncertain in value, but in honest money of full value in the foreign markets.

The present amount of the Austrian national debt, together with the cost of interest and capitalization, calculated upon a uniform basis, may be seen from the following figures:*

I.—GENERAL DEBT.				
	Total Amount of Funded Debt.		Annual Cost of Interest.	
	Millions. Crown.	Millions. £	Millions. Crown.	Millions. £
4.2 per cent. paper rentes...	2,967.32	123.64	124.62	5.19
4.2 per cent. silver.....	2,011.54	83.87	84.48	3.52
Lottery.....	283.10	11.81	9.75	0.40
Property loans.....	54.67	1.61	3.00	0.12
Salt bonds.....	72.34	3.01	3.24	0.13
Lesser old debts.....	51.44	2.14	1.47	0.06
Total of general national debt....	5,440.41	226.08	226.56	9.42
II.—AUSTRIAN NATIONAL DEBT.				
4 per cent. gold.....	1,168.69	48.69	46.74	1.94
4 per cent. crown.....	519.29	21.63	20.77	0.86
3½ per cent. invested.....	116.90	4.87	4.09	0.17
Debt to the Austro-Hungarian Bank.....	60.00	2.50	—	—
Debt for the Danube regula- tion works.....	14.16	0.56	0.70	0.03
Share in construction of South Austrian Railway...	28.39	1.18	1.42	0.06
State railways.....	1,436.19	59.83	58.83	2.45
Departmental debts.....	22.60	0.94	0.91	0.04
Floating debt.....	11.99	0.49	0.52	0.02
Total of the Austrian na- tional debt.....	3,378.21	140.69	133.98	5.57
Grand total of the national debt....	8,818.62	366.77	360.54	14.99

* 1 crown = ½ florin; £1 = about 24 crowns.

The difference between Paper Rentes and those Rentes the interest of which is payable in silver has only a historical meaning at the present day, since there is no longer any distinction between bank notes and silver. It forms the chief part of the general debt, which is the result of the conversion of 1868 at a reduced rate of interest; the interest was originally five per cent., but the coupons were subjected to the 16 per cent. tax, so that the actual interest was reduced to 4.2 per cent. The Lottery Loans date from a former period of unsound finance, during which the state arranged large issues of lottery tickets in order to attract capital; this system is now abandoned, and state lotteries are only held occasionally for charitable purposes. The Demesne Loans are a mortgage loan, which the state contracted during the financial distress of the war of 1866, by mortgaging its property upon extremely severe terms. The Salt Bonds are a species of Exchequer Bills, with a currency of three to six months and mortgage upon the state salt mines. The purely Austrian debt consists of those loans which the Austrian monarchy has contracted during the course of the last 32 years for her own economical and military requirements. The debt upon the state railways requires a special explanation. The network of the Austrian state railroads amounts to 10,000 kilometres in round numbers. These were partly due to the construction of state lines and partly to the purchase of existing private railway companies. In the latter case, the shares and bonds of these railways were taken possession of by the state for self payment, and these form the bulk of the state railway debts here adduced. The costs of the lines which have been built by the state were supplied from the balances in cash and the issues of shares. If these expenses be added to the outstanding railway debt, the total capital invested in Austrian railways works out at 2,541 millions of crowns. The interest required upon this principal amounts to 114.7 millions of crowns; as, even in the past year, the proceeds of the state railways only amounted to 70.25 millions of crowns, the state was obliged to make a subsidy of 44.4 millions.

The state property of Austria consists—irrespective of small undertakings, such as the silver mines at Przibram and a few coal mines, as also of state demesnes and forests—chiefly of state railways, which, far from supplying a surplus to the Budget, annually demand considerable subsidies for the interest and an-

nuities of the loans contracted. The liabilities of the state arise for a small part only from productive expenditure, but for the most part from military expenses and the misdeeds of a financially unsettled past, and therefore are a heavy burden to the taxpayer. It is characteristic of this circumstance that, in the general expenditure of the Budget, the national debt takes a prominent position, and absorbs far more of the public revenues than is the case, for instance, with Germany; hence, important educational requirements are driven into the background, while discreditable and antiquated sources of income, such as the lotteries, cannot be abolished, because there is a lack of other sources of the necessary revenues to replace these gains, and the service of the national debt consumes very large sums annually. At the same time, the state of affairs with regard to this point has also very considerably improved during the last ten years. By reason of the continual increase in the state revenues from the direct taxes and indirect contributions, the Budget has greatly augmented, and the state has been enabled to make numerous grants for educational and charitable purposes. The national debt is no longer the Moloch which devours the entire public revenues, and by means of the great conversion the administration of the debt has been materially facilitated. In this respect, Austria stands next to the great financial Powers, in spite of a noticeable interval, and throws unhappy Italy quite into the shade.

An important question which presents itself, when judging of the financial condition of a country, refers to the local distribution of its Government bills of debt. In wealthy countries the stock is in the possession of the national capital; and a few nations, such as England and Germany, as well as France, are even largely creditors of foreign states. Austria-Hungary is not in this fortunate position. The large loans of the past century were placed abroad in a preponderating degree; and English, Dutch, and German capital eagerly joined in the Austrian subscriptions, while the older Austrian railways were constructed chiefly with French and German money. This position of liability towards other countries has greatly improved of late years. For the last eight or ten years, Austrian securities have been flowing back from abroad, and considerable quantities of the state funds have been taken up by Austrian capital.

II.—THE NATIONAL DEBT OF HUNGARY.

The national debt of Hungary has only existed for the last thirty years. We have seen that the responsibility for the debt of the earlier régime, when Hungary was united to Austria, was assumed by Austria alone, and that Hungary only pays a fixed annual contribution to Austria. The national credit of Hungary often forms the subject of complacent reflection on the part of the nation, because it has not as yet been tarnished by national bankruptcy or stoppage in the payment of interest. However, the Hungarian national debt has suffered considerable reverses in its time. During the seventies, Hungary was in serious financial straits: the salaries of officials were paid in copper coins, and the Minister of Finance used to send every day for the toll-money taken at the Ofen Suspension Bridge, which often amounted to only a few florins, in order to make up the necessary sums for daily expenses; while loans at a high rate of interest had to be contracted abroad, and there was a permanent deficit in the Treasury. By the financial skill and good fortune of several Hungarian Governments, and more especially of Alexander Wekerle, the Hungarian Minister of Finance, who has attained European celebrity by his achievements in the reform of the values and his glorious "*Culturkampf*," Hungary has succeeded, like Austria, in banishing the deficit, in restoring the balance to the national finances, and in amassing considerable cash-surpluses for the Treasury, which rendered it possible for Hungary to make her contribution to the extinction of the floating bank note without raising a loan, and almost without any infraction of the national credit.

Since 1867, the Hungarian national debt has risen to the considerable amount of 5,000 million crowns. This figure appears very high for such a short period, especially when one reflects that the expenditure for purposes of defence and for the army, which has been the cause of the immense increase in the debt of Germany, has been only in part covered by loans. But it must not be forgotten that a very considerable portion of the loans contracted served for productive purposes, especially for the completion of state railways. Hungary possesses 9,000 kilometres of state railways: the capital invested in these, in state property, and other assets is estimated at 6,000 millions of crowns; and al-

though these investments, demesnes, forests, factories, and even railways owned by the state, only afford an insufficient interest, yet the state administration is prosperous. The Hungarian national debt was at first exceedingly burdensome, and the various loans were contracted at oppressive, if not prohibitive, rates. This was in the seventies, when, immediately after the severe financial crisis, the power of capital was broken and new resources to cover the deficit in the Treasury were difficult to come by.

The six per cent. Gold Rente was closed at a rate which offered an interest of nearly eight per cent., and the loans payable in paper were issued at very low sale prices. Of late years, Hungary has succeeded in lessening the burden of her liabilities by means of conversions on a large scale.

It may here be pointed out that Hungary has undergone three conversion periods. In 1881, the six per cent. Gold Rente, to the total amount of 400 millions of florins, was converted into a four per cent. Gold Rente which still exists. In 1888, a series of five per cent. stock was converted into four-per-cents. In 1892, in connection with the reform of the currency, the conversion of the five per cent. Paper Rente into the four per cent. Hungarian Crown Rente took place; this now forms the standard paper value of the Hungarian national credit, and also represents the type of the present issues.

It is a not insignificant fact that in Hungary the attempt, here doubly unsuccessful, was made to reduce the interest of Government Rentes below four per cent., and in 1895 a four per cent. loan, to the amount of 22½ millions of florins, was issued, for the regulation of the Danube at the Iron Gate, for which Hungary received authorization from the Powers at the Berlin Congress; in 1898 followed the issue of the 3½ per cent. Hungarian Investiture Rente, but this resulted in a complete failure, as the shares of this loan underwent an immense depreciation and still fill the portfolios of the Institute of Issue. The Hungarian State has, therefore, returned to the four per cent. Rentes, in view of the rising tendency of the rate of interest and the fluctuation in the price of stock.

The following table shows the present amount of the Hungarian national debt and the various categories of which it is composed:

	Nominal Capital.	Actual Condition. Millions of Crowns.	Annual Charges.
Government Stock.			
4 per cent. gold rente.....	1,268	1,156	50.72
4 per cent. paper rente.....	1,182	1,075	47.28
3½ per cent. paper rente.....	60	55	2.10
Total.....	2,510	2,286	100.10
Railway Stock.			
Interest payable in gold.....	462	420 (<i>circa</i>)	30
Interest payable in silver.....	263	250	15
Interest payable in paper.....	1,539	1,470	75
Total.....	2,264	2,140	120
Departmental debts.....	140	140	7
Grand total.....	4,914	4,566	227.10

Owing to the difference of language, we are not in possession of recent authentic publications, and we therefore rely upon the monumental work of Alexander v. Matlekovits, written in 1896: the figures, therefore, are merely approximate as regards the actual condition of the debt, but there is but little room for error. The costs for interest and reduction of the national debt absorb an annual sum of 230 millions of crowns. This amounts to 240 crowns per head of the population for the debt, and about 12.1 crowns for the annual payment of interest. This latter absorbs about 25 per cent. of the total revenues, and the same proportion of the state expenditure. But it must be remembered that only one portion of the national debt (a large one, it is true) is dependent upon the general inland revenues, and that the part of the public debt which was contracted for the construction and acquirement of state railways and other productive objects also enjoys the income from these branches of the private economical activity of the state, which afford a not inconsiderable contribution to the interest required.

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